Questions and Answers
Q4 2014 Corporate System Resolution Costs and Assessment Range

This document addresses frequently asked questions regarding the NCUA Board's recent announcement of the projected assessment range for federally insured credit unions in 2015. These assessments are one component of NCUA's broader strategy to provide funding through the Temporary Corporate Credit Union Stabilization Fund (Stabilization Fund) to cover the costs of the corporate system resolution program, a program approved by the NCUA Board in September 2010 to address the failure of five corporate credit unions (corporates).

The corporate system resolution cost and NCUA Guaranteed Note (NGN) projections in this document represent a point-in-time estimate generated as of the end of the fourth quarter of 2014 (Q4 2014). NCUA updates this information on its website twice per year, based on the most recent analysis of the performance of legacy assets from the five failed corporates. The cost projections are subject to change based on asset performance, future legal recoveries, and key loss modeling variables such as unemployment, home prices, and other factors.

Table 1. Resolution Costs and Net Remaining Assessments (in billions)

Formula	a	- b	= c	- d	= e
Resolution Costs	Total Projected Resolution Costs	Credit Union Member Capital in Corporates	Remaining Projected Resolution Costs	Total Assessments Paid to Date	Net Remaining Projected Assessments over the Life of the Stabilization Fund
2010 July	$13.9 to $16.1	$5.6	$8.3 to $10.5	$1.3	$7.0 to $9.2
2011 Q2	$10.8 to $15.1	$5.6	$5.2 to $9.5	$3.3	$1.9 to $6.2
2011 Q4	$11.6 to $14.9	$5.6	$6.0 to $9.3	$3.3	$2.7 to $6.0
2012 Q2	$11.6 to $14.5	$5.6	$6.0 to $8.9	$4.1	$1.9 to $4.8
2012 Q4	$11.3 to $13.6	$5.6	$5.7 to $8.0	$4.1	$1.6 to $3.9
2013 Q2	$10.2 to $12.0	$5.6	$4.6 to $6.4	$4.8	-$0.2 to $1.6
2013 Q4	$8.4 to $9.8	$5.6	$2.8 to $4.2	$4.8	-$2.0 to -$0.6
2014 Q2	$8.2 to $10.2	$5.6	$2.6 to $4.6	$4.8	-$2.2 to -$0.2
2014 Q4	$7.9 to $9.7	$5.6	$2.3 to $4.1	$4.8	-$2.5 to -$0.7

For further discussion of resolution costs, visit this website location:

Corporate System Resolution Costs
[***http://www.ncua.gov/Resources/Corps/RCost/Pages/FundCosts.aspx***](http://www.ncua.gov/Resources/Corps/RCost/Pages/FundCosts.aspx)

Q1. What are the cumulative losses to date on the legacy assets once held by the failed corporates?

The legacy assets included in the NGN portfolio have incurred $7.9 billion in losses (realized losses and implied write-downs) since the inception of the NGN program and through Q4 2014. These cumulative losses exceed the $5.6 billion of credit union member capital in the failed corporates (see the last row of the column labeled "b" in table 1), underscoring that those institutions were insolvent.

Q2. What is the total projected range of resolution costs over the life of the Stabilization Fund?

As of Q4 2014, NCUA projects the total corporate system resolution costs to range from $7.9 billion to $9.7 billion. (See the last row of the column labeled "a" in table 1.)

Q3. How much have federally insured credit unions collectively paid to cover corporate system resolution costs?

Credit unions with membership shares (capital) in the failed corporates have borne losses in corporate capital investments totaling $5.6 billion. In addition, all federally insured credit unions have paid Stabilization Fund assessments of $4.8 billion in total. Thus, the cumulative cost borne by credit unions through assessments and the loss of corporate capital investments is $10.4 billion. (See the last row of the columns labeled “b” and “d” in table 1.)

The total Stabilization Fund assessment amount of $4.8 billion should not be confused with the separate National Credit Union Share Insurance Fund (Share Insurance Fund) premiums, which are not part of the corporate system resolution costs.

Q4. How much more in Stabilization Fund assessments does NCUA project federally insured credit unions will have to pay?

As of Q4 2014, NCUA projects that future net assessments will range from negative $2.5 billion to negative $700 million over the remaining life of the Stabilization Fund, which expires in 2021. (See the last row of the column labeled “e” in table 1.) As long as both ends of the range remain negative, there will likely be no need for future assessments.

The assessment range is generated using projected legacy asset cash flows. NCUA expects to receive these cash flows over time, but they have not been realized and could vary significantly from our projections.

Q5. Since the assessment range is negative, will credit unions receive a refund in 2015?

No, NCUA’s $2.6 billion of outstanding borrowings to the U.S. Treasury, as well as NGN principal and interest and all other obligations of the Stabilization Fund, must be fully repaid before any remaining funds would be distributed to credit unions. This is not likely to occur prior to expiration of the Stabilization Fund in 2021.

Q6. Given that the net remaining projected assessments range from negative $2.5 billion to negative $700 million, why is the Stabilization Fund’s net position approximately $200 million as of Q4 2014?

The balance sheet of the Stabilization Fund shows the assets and liabilities as of December 31, 2014. In contrast, the net remaining projected assessment range is a forward-looking measure, based on expectations about the amount and timing of payments to and from the Stabilization Fund until it expires in 2021.

Q7. The assessment range had been tightening for the last couple of years. Why did the assessment range expand in 2014?

The projected assessment range has been updated and expanded to account for both a range of potential credit losses and a range of valuation methods. As we approach the time when the NGN trusts mature and the underlying legacy assets become available for active management, it will be necessary for the

NCUA to weigh the liquidity needs of the Stabilization Fund and the potential downside credit, market, and other risks of holding the assets to maturity, selling them, re-securitizing them, or choosing a combination of these options.

Accordingly, the lower end of the assessment range (negative $2.5 billion) represents the assessment predicted under both a favorable future credit environment and valuation method and the upper end of the assessment range (negative $700 million) represents the assessment under both an unfavorable future credit environment and more conservative valuation method.

Q8. What is the Stabilization Fund assessment range for 2015? What is the timetable for announcing, billing, and collecting assessments?

In November 2014, the NCUA Board announced that there is no Stabilization Fund assessment projected for 2015. In addition, as long as both ends of the range remain negative, there will likely be no need for future assessments. However, if adverse conditions develop, the NCUA Board may have to reconsider an assessment.

The timetable has generally worked as follows: the Board determines the assessment range in November of the preceding year, announces the exact assessment amount the following July, bills for the assessment in August, and collects the assessment in September and October. Future NCUA Boards can change this timetable at their discretion.

Q9. How many more years will federally insured credit unions have to pay Stabilization Fund assessments?

As long as both ends of the remaining assessment range remain negative, there will likely be no need for future assessments. However, when setting the annual Stabilization Fund assessment, the NCUA Board will determine how to manage potential assessments over time, weighing legacy asset performance, public policy considerations, interest and principal payments to the U.S. Treasury, legal recoveries, and credit union performance, among other factors.

By law, the Stabilization Fund will expire in 2021, so no assessments can occur beyond that date.

Q10. Why does NCUA need to borrow from the U.S. Treasury for the Stabilization Fund? How will the remaining borrowings be repaid?

NCUA can and has used funds borrowed from the U.S. Treasury to manage the costs of the corporate system resolution program. These costs are driven by losses on the legacy assets, management and disposal of other assets acquired in liquidation, bridge corporate transition expenses, interest on borrowings, expenses associated with monitoring the re-securitized legacy assets, and other liquidation costs.

Due to better performance of the legacy assets in an improving economy, a number of significant legal settlements, and the absence of short term cash obligations, NCUA did not borrow from the U.S. Treasury in 2013 or 2014. However, NCUA may need to borrow again when NGN maturity payments begin, potentially as soon as 2017.

NCUA's corporate system resolution program ensures there is no loss to the taxpayer; all losses are and will be borne by federally insured credit unions. Therefore, in order to repay the Treasury borrowings, which stand at $2.6 billion as of December 2014, NCUA may use:

- periodic credit union assessments,
- proceeds from the sale of remaining assets of the failed corporates,
- legal recoveries, and
- residual value remaining from the legacy assets collateralizing the NGNs, which will not be available until the NGNs mature.

Following the June 2014 repayment of $300 million, NCUA owes $2.6 billion to the U.S. Treasury at an adjustable interest rate (currently 0.122 percent) tied to the 1-year Treasury rate. For a complete history of Treasury borrowings, repayments, and associated interest expense, visit this website location:

Corporate System Resolution Costs – Borrowing Costs
http://www.ncua.gov/Resources/Corps/RCost/Pages/BorrowCost.aspx

Q11. How will lawsuits NCUA has filed against Wall Street firms and any related settlements or recoveries affect the Stabilization Fund and credit union assessments?

The impact depends on the nature of the settlement. If settlement proceeds are received by the legacy asset trusts, they will be distributed to individual bond-level certificate holders as specified by deal documents. In this situation, the cash flows from the legacy assets will increase, but the value received will not necessarily be dollar for dollar.

If settlement proceeds are received by NCUA, they will directly reduce the net amount NCUA is required to assess credit unions. However, settlement proceeds received by NCUA are first used to repay Treasury borrowings and any other obligations of the Stabilization Fund. Thus, they do not necessarily accelerate the timing of potential refunds.

NCUA has received more than $1.75 billion in gross recoveries through December 2014 through pursuit of legal claims against securities underwriters.

Q12. How often will NCUA update the actual losses and future projections? Where can I find these updates?

NCUA posts updates on the NCUA website twice per year, typically in April and November. For updates and more detailed information, visit these website locations:

Corporate System Resolution Costs
http://www.ncua.gov/Resources/Corps/RCost/Pages/default.aspx

NGN Program Information
http://www.ncua.gov/Resources/Corps/NGN/Pages/default.aspx